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SUBJECT: KOSOVO'S INDEPENDENCE HAS MINIMAL ECONOMIC IMPACT IN
MONTENEGRO, SO FAR

11. (SBU) SUMMARY: To date Kosovo's independence declaration and Serbia's angry reaction have not resulted in any significant economic consequences for Montenegro, and Montenegrin interlocutors are downplaying the likelihood of Serbian economic sanctions. However, continued regional political instability could harm Montenegro's tourism industry, a critical element of the Montenegrin economy. Montenegro's dependence on imported energy from Serbia also leaves it vulnerable should Belgrade ever decide to punish the GoM for future recognition of Kosovo.
END SUMMARY.

No Economic Impact So Far

12. (SBU) In the weeks leading up to and following Kosovo's declaration of independence, EconOff and Econ FSN raised the issue of the potential economic impact on Montenegro -- including the likelihood of a punitive Serbian response should the GoM recognize Kosovo -- with numerous interlocutors. Repeatedly we were told that economic ties are stronger than "nationalist political games" and that there is nothing to be concerned about. Economic think tanks, Government officials, and private sector contacts all concurred, telling us that Montenegro and Serbia are too economically linked for the Kosovo issue to disrupt these ties.

13. (SBU) Darko Konjevic of the Montenegro Business Alliance told us that Serbia is one of the most significant markets for Montenegrin products and the same is true for Serbian goods in Montenegro. Regardless of the political decisions Belgrade was making, Konjevic said that he doubts Serbia would ever take measures which would endanger its economic cooperation with other countries. Finance Minister Luksic also predicted that there would be no adverse economic consequences for Montenegro. He even put a positive spin on the regional developments, speculating that with Serbia falling out of favor with the EU, Montenegro's chances at a rapid EU integration process improved, as did its chances for speedy visa liberalization.

¶4. (SBU) Luksic did note, however, that the GoM hoped the political atmosphere in the region would improve before the start of the tourist season. His comment highlights the fact that, despite the current optimism in Podgorica, regional instability has the potential to adversely impact tourism revenues, which accounted for nearly 20 percent of Montenegro's GDP last year.

¶5. (SBU) Tourism and tourism investments have been booming in the last few years, and the independent World Travel and Tourism Council ranked Montenegro as the top-growing tourism destination in the world in 2007. A shaky political environment in the region could lead Western European and American tourists to associate Montenegro with its troubled neighbours and rethink their travel plans. Further, a significant number of tourists visiting the Montenegro coast each summer are from Serbia -- roughly 41 percent of the total 6.4 million tourist overnights in 2007. Montenegro risks losing this revenue if its relations with its northern neighbour cool.

¶6. (SBU) In addition to tourism, Montenegro's reliance on imported energy, the bulk of which comes from Serbia, is a potential concern. Montenegro imported 44 percent of its energy

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needs in 2007, and the Ministry for Economic Development told us that they expect to import at least 35 percent in 2008. Of that, approximately a quarter comes from Serbia. Although we have no indications that anyone in the energy sector believes Serbia would cut them off, it remains a vulnerability.

Comment

¶7. (SBU) Over a quarter of all Montenegrin exports, worth roughly 170 million euros, are sold in the Serbian market and nearly thirty percent (638 million euros) of all imports to Montenegro came from Serbia in 2007. These are significant numbers on both sides, indicating that Konjevic may be right that Serbia would be unwilling to risk a freeze in economic relations. But beyond Montenegro's delicate ethnic balance and domestic political scene, the close economic ties and Montenegro's energy reliance on Serbia make the recognition of Kosovo for the GoM particularly sensitive. The situation is calm now, and our interlocutors are generally optimistic, but when pressed, some did express concern that political developments in their backyard could have some impact here.

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